IWC INDUSTRIES LIMITED
ANNUAL REPORT 1972

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Special Note: Subject to approval by the shareholders, at the Annual and a General Meeting of Shareholders, to be held August 17, 1972, the Company proposes to change its name to
IWC COMMUNICATIONS LIMITED

DIRECTORS & OFFICERS

DIRECTORS	R. M. IVEY, Q.C. *Ivey & Dowler*
	W. J. MANN *President, Cowl Limited*
	A. D. RUSSEL *President, Hugh Russel & Sons Ltd.*
	L. F. STEVENS, F.C.A. *Executive Vice-President, Allpak Products Ltd.*
	J. G. TORRANCE, Q.C. *Wahn, Mayer, Smith, Creber, Lyons, Torrance & Stevenson*
	G. D. ZIMMERMAN *President*
OFFICERS	G. D. ZIMMERMAN, P.Eng. *President*
	D. C. CLELAND, C.A. *Treasurer*
	J. G. TORRANCE, Q.C. *Secretary*
AUDITORS	PRICE WATERHOUSE & CO. *Toronto, Ontario*
SOLICITORS	WAHN, MAYER, SMITH, CREBER, LYONS, TORRANCE & STEVENSON *Toronto, Ontario*
TRANSFER AGENT	GUARANTY TRUST CO. OF CANADA *Toronto, Ontario*
STOCK LISTING	TORONTO STOCK EXCHANGE

REPORT TO SHAREHOLDERS

General

IWC is a company continuing its transition from electrical manufacturing to providing communications services. Those of you who were shareholders in April 1969 will recall the Special Report issued at that time dealing with the underlying reasons for departing the wire and cable business and redirecting our activities into the communications industry and to improving the operating position of Lacal Industries Limited. The full implementation of our plan by this time had been partially frustrated for several reasons — largely beyond the control of the Company.

For example, Noram Communications as a cable television contractor has suffered from the long time lags between the making of applications to the Canadian Radio-Television Commission, the granting by them of licenses, and the decisions of cable operators to proceed with construction. This has been further compounded by the difficulties encountered by CATV licensees at the municipal and other levels of government in attempting to erect their own plant rather than using Bell Canada's facilities.

Terra Communications has made an outstanding effort to construct and operate an efficient cable system and has provided innovative and high quality local programming. Despite this effort there was a two year delay in receiving a decision on Terra's application for an extension to its restricted licensed area in Mississauga. The CRTC decision concerning Mississauga was handed down in March of this year at which time it was divided among six licensees. Although Terra Communications was awarded the most developed area of Mississauga, we were disappointed with its relative size.

Although Lacal remains a well-balanced supplier to the electrical utilities market, technology in the field is developing rapidly and Lacal lacks the breadth of product research and development to stay in the forefront of this industry on its own.

The basic objectives of the Company, however, remain unchanged as does the Company's determination to face up to its problems and produce favourable results. Your management feels that it has developed a diverse capability within the Company to meet the challenges of growth and rapidly changing technology.

The Company is considering various projects and associations that augur well for positive results. With the Company's basic financial strength and the flexibility of its people and facilities, I am confident that a significantly different picture will be shown next year. Specifically, we are seeking meaningful partners for Lacal and Noram in developing and expanding their activities in their respective fields. The Company is also considering various methods of becoming a more meaningful factor in the communications business generally and CATV and its related services in particular.

Financial

The following statement summarizes the comparative operating results of the principal activities carried on by the Company group. (Figures in 000's)

	Net Sales		Earning (loss) before income taxes and extraordinary items	
	1972	1971	1972	1971
Power accessories	$4,670	$5,088	$(9)	160
Communication systems	2,082	1,941	(129)	(129)
Radio and cable television	597	403	(62)	39
50% owned cable television companies	—	—	56	36
Other income and expenses (net)	—	—	(72)	(6)
	$7,349	$7,432	$(216)	$100

The decrease in power accessories sales and earnings is the result of reduced requirements of utilities during the year for specially designed hardware for major power transmission projects. As well, reduced demand was evident in the conventional product area, resulting in more intensified competition.

Cable system construction activity was down but sales in other areas increased to produce a modest overall sales

gain. Substantial losses on contracts acquired as part of an acquisition were provided for in the last quarter of the year. As a result no improvement was made this year compared with the previous year.

The net of all revenues and costs of operations of the Mississauga cable television system were deferred up to the end of 1971. Commencing in 1972 cable revenues and costs are included in the Consolidated Statement of Earnings. The loss of $62,000 includes a write-off of $40,000 of the deferred start-up cost spoken to above.

Profits from radio were lower than the prior year due to the withdrawal of cigarette advertising and a general reduction in national advertising dollars spent in secondary markets.

The Barrie and Orillia cable television systems in which the Company holds a 50% interest, enjoyed an almost 20% increase in subscriber revenues. The Company accounts for its share of these cable companies' profits on the "equity" basis and as a result sales revenues and costs are not included in the Consolidated Statement of Earnings nor their sales in the summary above.

The increase in loss under "other income and expenses (net)" results from reduced investment income in 1972. Lower interest rates earned on short term funds and the use of corporate funds to reduce bank loans in operating companies caused the investment income drop. Overhead expenses were much the same.

Funds were provided from operations in the amount of $307,762. The working capital decrease of $663,710 was in the main due to reduction of long-term liabilities by $596,105 with $500,000 of such reduction representing retirement of a long-term bank loan. The Company has recently negotiated a long-term bank loan to assist in financing the capital expenditures necessary to wire our new cable licence area in Mississauga. Present working capital exceeds the current demands of the operating companies. The availability of these additional funds plus presently unused credit lines provides a high degree of financial strength and flexibility.

Outlook

Spotlighting specific activities briefly, we are pleased with the performance of Barrie Cable TV Limited and Orillia Cable TV Limited. They are currently performing better than forecast as is Sarnia Broadcasting.

Terra Communications' new area is being wired presently and will be completed by the year end, at which time we will be in front of approximately 20,000 homes. Terra is adding to its present 3,500 subscribers at a satisfactory rate and by 1974 should be operating on a profitable basis.

The Company is actively engaged in expanding its operations in cable television and through Noram its involvement in the private communications area. We anticipate the emergence of new services such as teleshopping, surveillance and education, leading to increased revenues per subscriber. Recent studies have shown that expenditures in the order of $20. per month per household are to be expected in the not too distant future. Additionally we are optimistic that the government's long awaited telecommunication policy will open the exciting new "inter-connect" market in Canada as has already occurred in the United States.

Lacal had a disappointing year in shipments with a corresponding unsatisfactory performance in profit. Prospects in the power equipment field are improving and we look to significantly better results in the current year. Further, we are seriously pursuing a rationalization program in our power accessory business, looking to partnership arrangements of a meaningful nature.

I would like to express my sincere thanks to all our employees and directors for their enthusiasm and devotion to our affairs in the face of unusually adverse circumstances. I am confident that their continuing interest and dedication will provide the teamwork necessary for the Company to successfully meet the challenge of major developments for the Company during the current year.

G. D. ZIMMERMAN
President

IWC INDUSTRIES LIMITED and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Year ended March 31 1972	Year ended March 31 1971
Net sales (Note 7)	$ 7,348,882	$ 7,432,558
Investment income	204,651	255,472
	7,553,533	7,688,030
Cost of products sold and all expenses except items shown below	7,187,539	7,120,987
Depreciation	465,036	374,191
Amortization of deferred charges	39,997	—
Interest, including $24,353 (1971 — $18,443) on long-term liabilities	77,039	92,268
	7,769,611	7,587,446
Earnings (loss) before income taxes and extraordinary items	(216,078)	100,584
Income taxes	(21,050)	34,000
Earnings (loss) before extraordinary items	(195,028)	66,584
Extraordinary items, net	—	(57,431)
Net earnings (loss) for the year	(195,028)	9,153
Retained earnings at beginning of year	4,128,414	4,119,261
Retained earnings at end of year	$ 3,933,386	$ 4,128,414

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended March 31 1972	1971
Source of funds:		
Net earnings (loss) before extraordinary items	$ (195,028)	$ 66,584
Depreciation	465,036	374,191
Amortization of deferred charges	39,997	—
Deferred income taxes	(21,050)	(4,750)
Dividends received in excess of share of earnings of 50% owned companies	18,807	(26,131)
Funds from operations	307,762	409,894
Application of funds:		
Additions to fixed assets	364,293	722,590
Reduction of minority interest	15,740	—
Purchase of shares in 50% owned companies	—	469,600
Reduction of long-term liabilities, less discount of $50,000 in 1972	596,105	112,120
Extraordinary items	—	57,431
Miscellaneous, net	(4,666)	4,393
	971,472	1,366,134
Decrease in working capital	663,710	956,240
Working capital at beginning of year	3,745,299	4,701,539
Working capital at end of year	$ 3,081,589	$ 3,745,299

See accompanying notes to financial statements.

IWC INDUSTRIES LIMITED and subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	March 31 1972	March 31 1971
CURRENT ASSETS:		
Cash including bank deposit certificates	$ 409,796	$ 1,735,013
Marketable investments at cost (market value $631,750; 1971 — $1,027,500)	658,875	1,013,313
Accounts receivable	1,340,315	1,504,122
Inventories (Note 2)	2,067,881	2,261,101
Deposits and prepaid expenses	200,562	231,706
	4,677,429	6,745,255
INVESTMENT IN 50% OWNED COMPANIES (Note 1)	476,924	495,731
FIXED ASSETS, at cost (Note 3):		
Land	48,064	48,064
Buildings, machinery and equipment	4,879,534	4,745,950
	4,927,598	4,794,014
Less: Accumulated depreciation	2,131,350	1,897,023
	2,796,248	2,896,991
OTHER ASSETS:		
Excess of cost of businesses acquired over net tangible assets	1,045,025	1,095,025
Deferred charges (Note 4)	154,680	194,677
Deferred income taxes	39,200	18,150
Other	22,792	27,458
	1,261,697	1,335,310
	$ 9,212,298	$11,473,287

APPROVED ON BEHALF OF THE BOARD:

G. D. Zimmerman, Director

J. G. Torrance, Director

See accompanying notes to financial statements.

LIABILITIES

	March 31 1972	March 31 1971
CURRENT LIABILITIES:		
Bank advances (secured by receivables)	$ 695,300	$ 1,853,002
Accounts payable and accrued liabilities	767,332	997,358
Income and other taxes payable	41,749	37,556
Current instalments on long-term liabilities	91,459	112,040
	1,595,840	2,999,956
LONG-TERM LIABILITIES (Note 5)	275,930	922,035
MINORITY INTEREST	7,660	23,400
	1,879,430	3,945,391

SHAREHOLDERS' EQUITY

	1972	1971
CAPITAL STOCK (Note 6):		
5% cumulative redeemable non-voting preference shares, par value $10 each — Authorized — 31,946 shares; Issued — Nil		
Common shares, no par value — Authorized — 4,000,000 shares; Issued — 2,364,548 shares	3,399,482	3,399,482
RETAINED EARNINGS	3,933,386	4,128,414
	7,332,868	7,527,896
	$ 9,212,298	$11,473,287

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of IWC Industries Limited and all subsidiary companies.

The investment in the 50% owned companies is recorded on the equity accounting basis and accordingly is carried in the accompanying balance sheet at cost plus share of earnings less dividends received since acquisition. The Company's share of earnings is included in investment income and for the year ended March 31, 1972 amounted to $56,193 (1971 — $36,131); dividends received in the year amounted to $75,000 (1971 — $10,000). As at March 31, 1972 the Company's equity in the net assets of the 50% owned companies as shown by their books amounted to $26,000

2. INVENTORIES:

	1972	1971
Raw materials	$ 219,833	$ 221,635
Work in process and uncompleted contracts	839,190	932,866
Finished goods	1,008,858	1,106,600
	$2,067,881	$2,261,101

Raw materials are valued at the lower of cost or replacement cost. Finished goods, work in process and uncompleted contracts are valued at the lower of cost or net realizable value.

Profits on uncompleted contracts are recorded on the percentage of completion method

3. FIXED ASSETS:

Fixed assets include half the cost of machinery used in the operations of a subsidiary company paid for and at present owned by the Government of Canada under a contract whereby the subsidiary is required to repay, without interest, 50% of the cost. Upon payment of the final instalment, due on October 1, 1974 (Note 5), the Government will make a grant of the remaining 50% of the cost (the grant will total $131,000) after which title to the machinery will pass to the subsidiary.

4. DEFERRED CHARGES:

The deferred charges represent costs, less amortization of $39,997, incurred in developing a cable television system and are being amortized over a five year period.

5. LONG-TERM LIABILITIES:	March 31 1972	1971
Purchase price of preference shares of subsidiary company (subject to adjustment) payable not later than March 31, 1974	$ 84,868	$ 84,868
Government of Canada capital assistance grant repayable without interest in three annual instalments to October 1, 1974	78,097	104,357
Bank loan payable over five year period beginning 1972	—	500,000
6¾% promissory note dated July 1, 1969 payable in annual instalments of $60,000	180,000	240,000
6¾% promissory note dated February 18, 1970 payable in annual instalments of $3,727	11,180	14,907
7% mortgage repayable in monthly instalments of $220 blended principal and interest due May 31, 1978	13,244	14,943
Amount payable for purchase of common shares of a subsidiary company, contingent on future cash flow of the subsidiary; discharged in 1972 by payment of $25,000	—	75,000
	367,389	1,034,075
Deduct: Instalments due within one year included in current liabilities	91,459	112,040
	$ 275,930	$ 922,035

6. CAPITAL STOCK:

Of the authorized and unissued common shares 79,000 are reserved for options granted to employees and officers as follows: 24,000 shares at $3.27 per share, 10,000 shares at $4.79 per share, 28,000 shares at $2.59 per share and 17,000 shares at $1.35 per share. The options are exercisable as to 44,600 shares in 1972, 11,000 shares in each of 1973 and 1974, 9,000 shares in 1975 and 3,400 shares in 1976.

7. NET SALES BY CLASS OF BUSINESS:

The consolidated net sales were divided among classes of business as follows:

	Year ended March 31	
	1972	1971
Power transmission accessories	64	69
Communication equipment and related products	28	26
Other	8	5
	100%	100%

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Remuneration of directors and senior officers (as defined by the Business Corporations Act, Ontario) for the year ended March 31, 1972 amounted to $99,690 (1971 — $96,650).

9. EARNINGS PER SHARE:

The earnings per common share based on the weighted monthly average number of shares outstanding during the respective fiscal years are as follows:

	Year ended March 31	
	1972	1971
Earnings (loss) before extraordinary items	(8¢)	3¢
Extraordinary items ..	—	(2½¢)
Net earnings (loss) for the year	(8¢)	½¢

10. INCOME TAXES:

Certain companies have incurred losses which may be used to reduce provisions for income taxes of future years; at March 31, 1972 such losses were estimated to be approximately $250,000.

11. CONTINGENT LIABILITY:

The Company has guaranteed loans made to 50% owned companies up to an amount of $169,000.

AUDITORS' REPORT

To the Shareholders of
IWC Industries Limited:

We have examined the consolidated balance sheet of IWC Industries Limited and subsidiary companies as at March 31, 1972 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
May 17, 1972.

PRICE WATERHOUSE & CO.
Chartered Accountants.

IWC INDUSTRIES LIMITED

6205 Airport Road, Mississauga, Ontario